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Counsel for DIRECTV, Inc.

**IN THE UNITED STATES BANKRUPTCY COURT
FOR THE EASTERN DISTRICT OF VIRGINIA
RICHMOND DIVISION**

In re:

Chapter 11

CIRCUIT CITY STORES, INC., et. al.,

Case No: 08-35653-KRH

Jointly Administered

Debtors.

Related to Doc. Nos. 23 and 78

**LIMITED OBJECTION OF DIRECTV, INC. TO ENTRY ON A FINAL BASIS
OF INTERIM ORDER PURSUANT TO 11 U.S.C. SECTIONS 105, 361, 362, 363
AND 364 AND RULES 2002, 4001 AND 9014 OF THE FEDERAL RULES OF
BANKRUPTCY PROCEDURE (1) AUTHORIZING INCURRENCE BY THE
DEBTORS OF POST-PETITION SECURED INDEBTEDNESS WITH PRIORITY
OVER ALL SECURED INDEBTEDNESS AND WITH ADMINISTRATIVE
SUPERPRIORITY, (2) GRANTING LIENS, (3) AUTHORIZING USE OF CASH
COLLATERAL BY THE DEBTORS PURSUANT TO 11 U.S.C. SECTION 363
AND PROVIDING FOR ADEQUATE PROTECTION (4) MODIFYING THE
AUTOMATIC STAY AND (5) SCHEDULING A FINAL HEARING**

DIRECTV, Inc. ("DIRECTV"), by its counsel, Williams Mullen and Honigman Miller Schwartz and Cohn LLP, for its Limited Objection to Entry on a Final Basis of Interim Order Pursuant to 11 U.S.C. Sections 105, 361, 362, 363 and 364 and Rules 2002, 4001 and 9014 of the Federal Rules of Bankruptcy Procedure (1) Authorizing Incurrence by the Debtors of Post-Petition Secured Indebtedness With Priority Over All Secured Indebtedness and With Administrative Superpriority, (2) Granting Liens, (3) Authorizing Use of Cash Collateral by the

Debtors Pursuant to 11 U.S.C. Section 363 and Providing for Adequate Protection (4) Modifying the Automatic Stay and (5) Scheduling a Final Hearing, states:

1. DIRECTV does business with Debtor Circuit City Stores, Inc. (“Debtor”) under a series of agreements, including the Authorized Retailer Agreement [Interim] deemed effective as of June 1, 2007, the Authorized Retailer Agreement deemed effective as of October 23, 2007 (collectively the “Retailer Agreement”), the Master Dealer Agreement made as of April __, 2005 and the Product Addendum dated May 13, 2005 (with the Retailer Agreement, collectively, the DIRECTV Agreements”).

2. Under the DIRECTV Agreements, DIRECTV sells goods referred to as DIRECTV Receivers to Debtor on credit. It is estimated that, as of the petition date, Debtor owed DIRECTV in excess of \$500,000 for DIRECTV Receivers (the “Circuit City Obligations”).

3. As a retailer and Customer Referral Contractor for DIRECTV under the DIRECTV Agreements, Debtor markets DIRECTV Receivers and subscriptions for DIRECTV Programming Packages and performs other activities for which DIRECTV pays Debtor commissions and other charges, such as payments for installation services, installation incentives, equipment reimbursement, programming commissions, marketing development funds, and volume incentive rebates (the “DIRECTV Obligations”).

4. The DIRECTV Obligations are expressly subject to numerous chargebacks. In addition to other rights, the Retailer Agreement expressly grants DIRECTV the right to recoup or setoff the Circuit City Obligations against the DIRECTV Obligations as follows:

A party may set-off or recoup any amounts owed to it by the other party, or by its subsidiaries and affiliates, pursuant to this or any other agreement with such party, and any damages suffered by a party due to the other party’s breach hereof or other misconduct,

against any amounts which it owed to the other parties. The foregoing does not limit a party's right to recover any unrecouped balance.

5. Thus, DIRECTV is a secured creditor of the Debtor under 11 U.S.C. §506(a) due to its rights of recoupment and/or setoff against the DIRECTV Obligations, with a valid and first priority rights and lien in the DIRECTV Obligations. Moreover, DIRECTV's right of recoupment is not subject to the automatic stay.

6. Debtors seek to have entered on a final basis the Interim Order Pursuant to 11 U.S.C. Sections 105, 361, 362, 363 and 364 and Rules 2002, 4001 and 9014 of the Federal Rules of Bankruptcy Procedure (1) Authorizing Incurrence by the Debtors of Post-Petition Secured Indebtedness With Priority Over All Secured Indebtedness and With Administrative Superpriority, (2) Granting Liens, (3) Authorizing Use of Cash Collateral by the Debtors Pursuant to 11 U.S.C. Section 363 and Providing for Adequate Protection (4) Modifying the Automatic Stay and (5) Scheduling a Final Hearing (the "Interim Financing Order"),¹ which provides that the DIP Liens shall be senior and superior in priority to all secured creditors of the Debtors' estates in Accounts and General Intangibles and all liens in the foregoing except for certain Prior Permitted Liens.

7. It is unclear whether DIRECTV's liens by reason of recoupment and/or setoff against the DIRECTV Obligations are Prior Permitted Liens under the Financing Order.

8. DIRECTV objects to entry of the Financing Order as a final order unless the DIRECTV liens in the DIRECTV Obligations are treated as Prior Permitted Liens.

¹ Capitalized terms not otherwise defined herein shall have the meaning given to them in the Financing Order.

WHEREFORE, DIRECTV respectfully requests this Court deny entry of the Interim Financing Order as a final order unless the DIRECTV liens in the DIRECTV Obligations are treated as Prior Permitted Liens and grant DIRECTV such other relief as is proper and just.

Respectfully submitted,

DIRECTV, INC.

/s/ William H. Schwarzschild, III
By _____
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DETROIT.3417067.4

CERTIFICATE OF SERVICE

I hereby certify that I have, this 28th day of November 2008 caused the service of a copy of the foregoing Limited Objection to Entry on a Final Basis of Interim Order Pursuant to 11 U.S.C. Sections 105, 361, 362, 363 and 364 and Rules 2002, 4001 and 9014 of the Federal Rules of Bankruptcy Procedure (1) Authorizing Incurrence by the Debtors of Post-Petition Secured Indebtedness With Priority Over All Secured Indebtedness and With Administrative Superpriority, (2) Granting Liens, (3) Authorizing Use of Cash Collateral by the Debtors Pursuant to 11 U.S.C. Section 363 and Providing for Adequate Protection (4) Modifying the Automatic Stay and (5) Scheduling a Final Hearing to be sent to those on the annexed Service List A, by first class mail, postage prepaid, at the address designated by them for service of papers; by facsimile or via email to those on the annexed Service List B, and electronically to the parties set forth on the Court's ECF Service List, maintained in this case.

/s/ William H. Schwarzschild, III

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